COVID-19 Sector Update (17 February 2020)

**Tech Sector**

Like the most sectors, the tech sector is affected by restrictions on travel and movements in cities. Nonetheless, most tech companies have re-opened business with staff working from home.

But some smaller companies and startups will struggle to survive. Others will have to cut their payroll expenses and lay off staff. Peking University and Tsinghua University recently did a survey\(^1\) of 995 China SMEs companies about the impact of coronavirus. 18.5% the companies were from the tech sector.

Many companies are facing serious cash flow problems with 34% of the respondents indicating that there cash reserves will last for only one month. Another 33.1% said they would suffice for two months. Only around 15% could survive of a closure of more than 3 months (Graph).

*Graph - Cash Reserves of Chinese SMEs*

International companies such as Apple, Google, and Nintendo have all closed their offices and stores in China. Some factories have resumed work, but many supply chains remain interrupted.

COVID-19 also affects the industry’s event calendar. For example, the Mobile World Congress (MWC), the world’s most important fair for mobile devices, and which was supposed to be held in Barcelona between 24 and 27 February has been cancelled after major tech giants pulled out.

The fates of the MWC Shanghai (June) and the 2020 World Artificial Intelligence Conference (9-11 July 2020) in Shanghai are equally hanging in the balance.

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\(^1\) [Chinese] https://cj.sina.com.cn/articles/view/2160994315/80ce280b01900kq1u
Retail and E-Commerce

COVID-19 has hit the retail sector particularly hard. Retail sales have plummeted during Chinese New Year Holidays, which used to be a high season of travelling and shopping. In reaction, 80 commercial property firms have decided to cut rents by at least 50 percent for about 600 department stores and shopping malls during a time period of one week to two months.

Furthermore, several goods have experienced shortages leading to occasional hoarding. According to a survey of 2,923 people across China, 61% of the participants responded that they had trouble buying fresh vegetables. 24% had witnessed shortages of fresh meat and snacks, daily necessities, and rice also lacking in some shops.

Graph – Shortages of Retail Goods

According to the same survey, which was jointly released by Data100, a data provider, the Health Times and the People’s Daily Health Supplement, two state newspapers, most people are continuing to purchase goods from their usual supplies. E-commerce, however, has done better than others in heavily affected regions and those areas, which are under an effective lock-down.

For foreign businesses, the biggest impact is likely on delivery, logistics, and trade events. Although most local authorities have issues emergency regulations to speed up import procedures for daily necessities, many companies are still facing delays and disruptions.

Most trade fairs, too, have been canceled or postponed. The website zhxxpq.com, which specializes on trade shows, has already published a list with 49 fairs[^2^], which have been either cancelled or delayed.

Yet the data from the consumer survey also suggests a strong rebound in retail spending after the crisis. Thus, many participants indicated that they would increase spending on recreational activities, food and drinks, and other consumer goods once the virus is under control.

Creative Industries and Sports

Similar to retail, the creative industry is particularly suffering. The China Federation of Radio and Television Association have issued a notice to the film industry ordering a halt of all film and movie production during the crisis. Nearly 70,000 movie theatres remain closed, even though some producers have released their content directly on video platforms.

Tourism, too, has grinded to a halt. To contain the spread of coronavirus, China has suspended all outbound tour groups and dozens of airlines have cancelled their flights to and from China until at least the end of March. On the UK side, the Foreign Affairs and Commonwealth Office currently “advises against all but essential travel to the rest of mainland China”.

This setback also has happened in the publishing industry. According to a publishing research agent, the brick-and-mortar bookstores’ sales revenue plunged by almost 90%. Although the virus outbreak resulted in negative impact on both online and offline bookstores selling, digital reading platforms stand out by increasing the numbers of subscriptions and the daily active readers. Overall, usage of digital reading platforms has grown by an average of 10 to 30%.

By contrast, online games and short video apps have been among the few beneficiaries of the crisis. Online platforms, such as Bytedance’s Douyin (TicToc) or Tencent’s gaming apps, have attracted millions of views and downloads as people are stuck in self-quarantine at home. Tencent’s Honor of King, for example, leads charts with the number of daily active users surpassing 100 million at its peak around the Lunar New Year. Short-video apps like Douyin and Kuaishou have also become one of the most important channels for sharing news and content about the situation in the quarantined and more remote areas.

Another noticeable trend is the increasing use of virtual reality applications (VR), which allow the con. Two of China’s largest real estate and rental platforms, 58.com and Anjuke, have offered limited-time VR and live streaming services to allow buyers to inspect properties without having to leave home. Some music shows and TV shows like Hunan Chinese New Year Festival also promoted 5G+VR services. With the rollout of 5G services across China, augmented reality (AR) and VR content is expected to increase in use and significance for promotion and marketing purposes.
Education Sector

Most educational establishments remain closed, even though most institutions have adopted internet-based curricula, using online classes and tools to teach students and pupils at home.

For UK institutions, the immediate impact is organisational. Most universities have suspended or cancelled their promotional activities, which usually take place in China from March to April. Some universities have gone further and postponed all trips until June.

There are also concerns about the potential cancellation of CIEET tour, which is one of the two biggest recruitment fairs in China. So far, no official announcement has been made regarding the status of the event. Many administrators will probably push promotional and business development activities into April and onwards into the summer months.

Aside the organisational questions, some UK education companies have already suffered economically. Cambridge Assessment which, together with the British Council, co-organises the IELTS tests has already recorded a £ 6 million loss due to the nationwide cancellation of exams.

Arrangements for Chinese students in the UK

Facing growing concerns from parents and classmates, most institutions have taken a pro-active approach. Chinese students returning from China are asked to self-quarantine for two weeks and report any suspicious symptoms directly to the NHS.

UK Visa and Immigration also confirmed that Chinese students will not face a penalty for overstaying their visas. Equally, UK universities won’t sanction students who are unable to leave China and return to class.

Fight against COVID-19

At the same time, several UK institutions are actively engaged in the research and development of a vaccine against the coronavirus. Imperial College is already a leading institution in the global race to produce a cure. The University of Nottingham as well as the University of Liverpool have both applied for extra funding to support research of the virus. In total, the UK will invest a total of £ 40 million into the research of vaccine.

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Financial and Professional Services

To ensure liquidity in the market, the People’s Bank of China has injected around RMB 2 trillion via reverse repo operations into the financial system. Also, it has, jointly with other relevant authorities, rolled out 30 special financial measures to support the fight against COVID-19 and has set up a RMB300 billion fund for special central bank lending.\(^4\)

The 30 measures\(^5\) call among other things for maintaining liquidity in the financial markets, special support for emergency projects (i.e. field hospitals, medical equipment), and preferential loans to small and medium sized companies affected by the lock down.

As of 11 February, financial departments had allocated RMB 71.85 billion (£ 7.8 billion) to prevent and control the epidemic, with RMB 17.29 billion (£ 1.9 billion) coming from the central government\(^6\).

Problems for Financial and Professional Services

Most companies in the FPS sector have switched to remote working arrangements. Yet, most businesses continue to suffer from a lack of manpower both at the front and back office, as only key personnel is working in the office.

Banks have shut down most branches and some accounting firms have moved auditing work online to limit the impact and meet the deadline.

At business level, most members are very pessimistic about the short term negative impact on their top line growth in the first two quarters of this year. Some are concerned about their long term business as FDI will be affected by the outbreak.

Some clients also think that the opening up of China’s financial services sector will attract less foreign investors as many financial institutions are re-evaluating their market risk due to the coronavirus outbreak\(^7\).

Nonetheless, China’s Banking regulator, the China Banking and Insurance Regulatory Commission, said that COVID-19 will only have a short term impact on China’s financial system\(^8\).


\(^5\)https://www.creditchina.gov.cn/biaozhunguifan/hangyexingbiaozhunguifan/202002/t20200206_184044.html

\(^6\) http://www.china.org.cn/business/2020-02/11/content_75692892.htm

\(^7\) https://baijiahao.baidu.com/s?id=1657655103339385180&wfr=spider&for=pc

\(^8\) http://www.xinhuanet.com/english/2020-02/07/c_138763556.htm
Healthcare and Life Sciences

China has mobilized its healthcare sector and drug manufacturers to develop a vaccine and improve medical treatments to combat the virus. The Oslo-based Coalition for Epidemic Preparedness Innovations (CEPI) has opened calls for drug makers and research institutions to develop and manufacture a proven vaccine.

British pharmaceutical company GlaxoSmithKline has announced\(^9\) that it will make its established pandemic vaccine adjuvant platform technology available to enhance the development of an effective drug against COVID-19.

**Government Support for Drug Makers**

The central and local government has also passed regulations to speed up and facilitate the delivery of emergency-related goods. Thus, registration fees are waived for coronavirus prevention-related drugs and medical devices.

Authorities have published a list\(^10\) with 72 products for which can benefit from a fast-track approval. Furthermore, donations intended for the most affected areas, ie. Wuhan, are exempt from import duties and will be processed according to a ‘Green Channel’ principle.

Nonetheless, the government has also given local authorities new powers to confiscate unsold inventory of medical equipment and pharmaceutical products.

**Impact on UK companies**

The UK healthcare and life sciences sector enjoys a high reputation in China. The China Chamber of Commerce for Import & Export of Medicines & Health Products has helped identify and recommend UK suppliers in China and the UK to both national and provincial governments.

Yet, despite the growing demand for COVID-19 related products, UK drug makers also face difficulties. Thus, several companies report delays due to closed factories and overall sales are expected to drop due to the slump in non-COVID-19 related products.

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\(^10\) [http://yjj.sh.gov.cn/ypjgyw/20200206/4c5dda44aa654e4389a1e0628cee3efd.html](http://yjj.sh.gov.cn/ypjgyw/20200206/4c5dda44aa654e4389a1e0628cee3efd.html)
Advanced Manufacturing

China’s traditional manufacturing hubs in Guangdong, Zhejiang, and Jiangsu have been particularly hit by the virus.

First, the extended Lunar New Year Holidays has delayed the resumption of work by two weeks. And even then, most provinces still require businesses to apply for special approval before being allowed to restart operations.

Second, severe restrictions on travel and movement have deterred many workers from returning to their workplace. This has greatly affected the number of workers available and has increased the cost of hiring workers from a limited labour pool.

Third, many factories need to provide their own medical equipment (ie. masks, disinfectants), before being allowed to open their factors. This has forced some manufactures to reconfigure their assembly lines. For examples, BYD, China’s automotive giant, has set up a dedicated production line for medical masks in order to meet its own demand and provide for external needs when necessary. The car maker will thus be able to produce 5 million masks a day by the end of February.
While most of the businesses outside Hubei have started their operations again, there remains a high level of uncertainty with regard to when normal conditions can be restored.

Based on discussions with companies in the energy, environment & infrastructure (EES) sector have revealed the following assumptions:

First, most businesses in the EES sector plan with the working assumption that the economy will be back to normal by the end of March.

Second, there are serious concerns about how quick operations can be resumed. The outbreak had a considerable impact on the logistics sector, thus delaying shipments and deliveries. Another problem is the delayed return of workers due to travel restrictions.

Third, the EES sector particularly relies on good government relations and many businesses are currently trying to work out arrangements, which allow businesses to resume operations.

Finally, companies in the renewable energy sector also face uncertainty as to whether China’s National Environmental Agency (NEA) will extend deadline for renewable tariffs, which are intended to create incentives for renewable businesses.

What this means for UK/International business:

UK importers need to re-examine their supply chain. Generally speaking, Chinese suppliers outside Hubei will probably suffer shortages and might therefore raise their prices. But these effects will be short-term and conditions should return to normal relatively soon.

Businesses with Hubei-based suppliers, however, are advised to review their options and shift supply chains, if possible.

UK businesses with factories in China might benefit, if they are operating in sectors with an oversupply (ie. solar, automotive etc.). The crisis will probably hit smaller companies with low margins hardest, thus accelerating a market correction.
Agriculture & Food and Drinks

For businesses in agriculture and the food and drinks (AFD) sector logistics has been the biggest challenge.

Most ports appear to work and limited capacity, making it impossible to unload containers in time. As a result, supply chains have been disrupted.

Some bonded warehouses have also been closed, making it impossible to deliver goods, even if ordered online.

Cancelled events and promotional activities are another concern, especially around the upcoming Women’s Day (8th March).

Trade Fairs, too, have been affected. The China Food & Drinks Fair in Chengdu (scheduled for 22-25 March) has already been postponed. Yet so far, no announcement has been made for SIAL CHINA 2020, Asia’s Largest Food Innovation Exhibition, which is scheduled to take place in Shanghai in early May.